



Majority Caucus  
U.S. House of Representatives  
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## COMMITTEE ON THE BUDGET

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### FISCAL OVERVIEW OF THE PRESIDENT'S BUDGET

7 February 2005

#### SUMMARY

Under the President's budget submission for fiscal year 2006, total Federal spending would be held to an average of 4.1 percent growth per year over the next 5 years, gradually reducing the government's share of economic resources. To maintain this level of restraint, the President calls for a hard freeze in non-defense, non-Homeland Security discretionary spending, and substantial savings in mandatory spending (spending not subject to annual appropriations).

The President also calls for permanently extending the tax laws enacted in 2001 and 2003, and providing modest additional tax relief. Even with these policies, the administration projects total revenue to grow an average of 6.6 percent per year. Revenue would increase from \$2.053 trillion in 2005 to \$2.8 trillion in 2010, or from 16.8 percent of gross domestic product [GDP] to 17.7 percent.

#### The President's Budget: Total Spending, Revenues, and Deficits (dollars in billions)

	2005	2006	2007	2008	2009	2010	Annual Percent Change	
							2005-06	5-year annl.avg.
Outlays	2,479	2,568	2,656	2,758	2,883	3,028	3.6	4.1
Revenues	<u>2,053</u>	<u>2,178</u>	<u>2,344</u>	<u>2,507</u>	<u>2,650</u>	<u>2,821</u>	<u>6.1</u>	<u>6.6</u>
Deficit (-)	-427	-390	-312	-251	-233	-207	-8.7	-13.5
Deficit as % of GDP	-3.5%	-3.0%	-2.3%	-1.7%	-1.5%	-1.3%		

Source: Office of Management and Budget

The combination of these fiscal policies – with revenue outgrowing spending – yields the budget deficit reduction the President has stated: cutting the deficit in half. For fiscal year 2005, the current fiscal year, the budget submission projects a deficit of \$427 billion (including the supplemental appropriations measure for military operations in Iraq and Afghanistan that will be submitted to Congress later this year). Although a record in nominal terms, this deficit ranks eleventh as a share of the economy over the past 25 years, at 3.5 percent of GDP. Under the President's policies, the Office of Management and Budget [OMB] estimates the deficit will decline to \$390 billion, or 3.0 percent of GDP, in fiscal year 2006, and then will continue falling to \$207 billion, or 1.3 percent of GDP in 2010.

As discussed in more detail below, the lower growth rate of spending is the net result of legislative actions that the Administration proposes. These actions would realign existing spending while causing spending to be below baseline levels. Net savings would be achieved in both discretionary and mandatory spending, and revenues would also be reduced below baseline levels.

## DISCRETIONARY SPENDING PROPOSALS

The President requests new discretionary budget authority [BA] totaling \$840.3 billion for fiscal year 2006, an increase of 2.1 percent over the \$822.7 billion in enacted fiscal year 2005 non-emergency appropriations. In addition, the President also requests \$81 billion in supplemental fiscal year 2005 funds for continuing operations in Iraq and Afghanistan. This new request adds to the \$11.9 billion in previously enacted fiscal year 2005 emergency supplemental funds for recovery from natural disasters.

Over the 5 years covered by the budget submission, the administration assumes an annual average growth rate of 2.3 percent in total discretionary BA. This growth rate is similar to projected consumer price inflation, but is a sharp reduction from the 7.1-percent rate of increase recorded in the preceding 5-year period. Within the total discretionary growth rate, however, lies a significant shift in discretionary policies advocated by the President. As shown in the table below, the 2006 request provides 4.8-percent growth for Defense appropriations, and 2.9 percent growth for Homeland Security. At the same time, it proposes a 0.7-percent *reduction* in nondefense, non-Homeland Security spending.

### The President's Budget: Discretionary Totals

(dollars in billions)

	2005	2006	Annual Dollar Change	Annual Percent Change
Regular Budget Authority:				
Department of Defense - Military	400.1	419.3	19.3	4.8%
Homeland Security (Nondefense)	31.3	32.2	1.0	2.9%
Other Nondefense, Non-Homeland Security	<u>391.4</u>	<u>388.7</u>	<u>-2.7</u>	<u>-0.7%</u>
Subtotal - Regular Appropriations	822.7	840.3	17.6	2.1%
Emergency Supplemental Budget Authority:				
Previously Enacted FY 2005 Supplemental	11.9	0.0		
Anticipated FY 2005 Supplemental	<u>81.0</u>	<u>0.0</u>		
Subtotal - Supplemental and Emergency	92.9	0.0		
Total	915.6	840.3		

Source: Office of Management and Budget

Figures may not add due to rounding.

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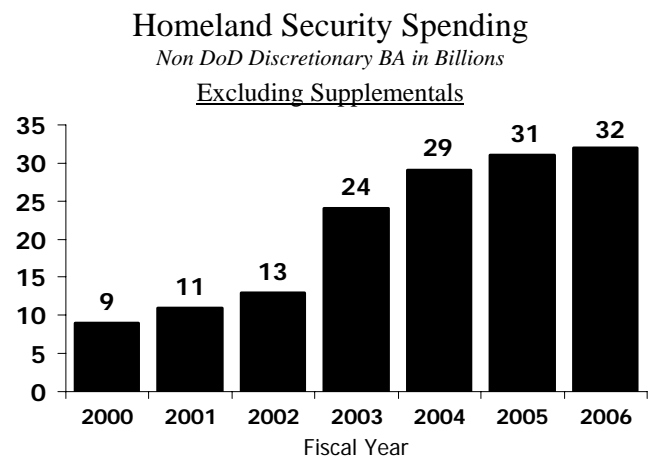
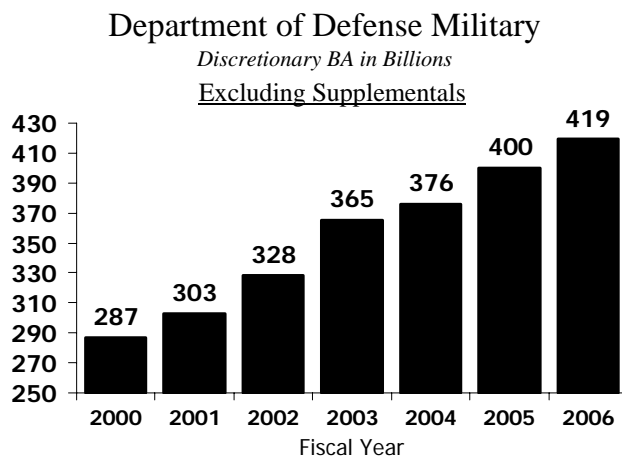
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A further look at the individual categories follows below:

- **Defense Appropriations:** The administration recommends \$419.3 billion in BA for fiscal year 2006 for the military functions of the Department of Defense, an increase of 4.8 percent over the \$400.1 billion provided in fiscal year 2005. This continues the growth trend from the previous 5-year period in this category, though at a slower pace than the 6.8-percent average annual growth of 2000-05 (see chart).

For the 5-year budget period, the budget assumes a 4.2-percent rate of increase, resulting in Defense appropriations of \$492.1 billion in 2010.

- **Homeland Security Appropriations:** The administration recommends \$32.2 billion in fiscal year 2006 for nondefense Homeland Security – an increase of nearly \$1.0 billion, or 2.9 percent, over the \$31.3 billion in fiscal year 2005. In fiscal year 2000, spending in this category was approximately \$9 billion; however, following September 11<sup>th</sup>, it has exhibited significant growth over the last 5 years at an average annual growth rate of 28.3 percent (see chart).



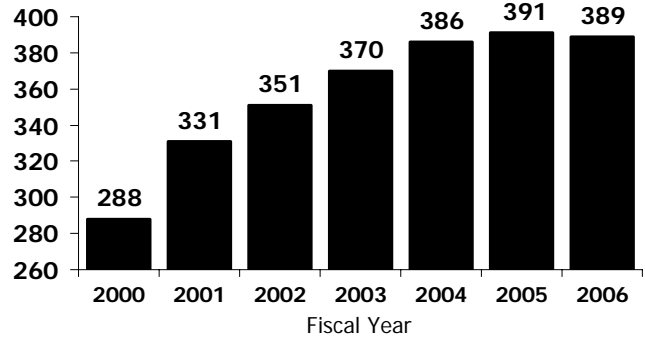
The President's request for fiscal year 2006 reduces this rate of growth significantly, but still exceeds inflation. For fiscal years 2005 through 2010, the budget assumes a 4.5-percent rate of increase, resulting in nondefense Homeland Security appropriations of \$39.0 billion in 2010.

Department of Homeland Security [DHS] spending would increase from \$29.0 billion in 2005 to \$29.3 billion in 2006 under the President's request. This \$0.3-billion increase is an 1.0-percent year-over-year increase for this agency.

- **All Other Appropriations:** The administration recommends \$388.7 billion in fiscal year 2006 for appropriated spending other than defense and Homeland Security – a decrease of \$2.7 billion, or 0.7 percent, below the level for fiscal year 2005. This reduction reverses the trend over the previous 5-year period, which was marked by an average annual growth rate of 6.3 percent (see chart). For years after 2006, the budget assumes a hard freeze on this portion of discretionary spending at the 2006 level.

### Non-DOD Military, Non-Homeland Security

*Discretionary Budget Authority in Billions  
Excluding Supplementals*



To summarize, under the administration request, defense military appropriations as a share of total discretionary appropriations would increase from 49.9 percent of the total in 2006 to 53.5 percent of the total in 2010. Nondefense Homeland Security appropriations would increase from 2.9 percent of the total in 2006 to 4.2 percent of the total in 2010. Nondefense, non-Homeland Security appropriations would decrease from 46.3 percent of the total in 2006 to 42.3 percent of the total in 2010.

Without this consistent spending discipline, deficits increase significantly. If growth in nondefense, non-Homeland Security spending were to continue at the rate of consumer price inflation from the 2005 level, it would add \$156.5 billion to discretionary BA spending over the next 5 years – \$51.4 billion in 2010 alone.

## MANDATORY SPENDING PROPOSALS

The administration proposes overall savings in mandatory spending, or spending not subject to annual appropriations. These policies would increase spending by \$826 million for fiscal year 2005 before reducing spending by a net of \$5.3 billion in fiscal year 2006, \$38.7 billion for fiscal years 2006-10, and \$71.1 billion for 2006-15 (see table on next page). The savings would slow the growth in mandatory spending from the baseline projected annual average of 5.6 percent to 5.5 percent over the next 5 years.

Spending increases total \$1.8 billion for fiscal year 2006, \$40.0 billion for fiscal years 2006-10, and \$104.4 billion for fiscal years 2006-15. They are more than offset, however, by savings of \$7.1 billion in the first year, \$78.7 billion over 5 years, and \$175.5 billion over 10 years. With these changes, mandatory spending would be \$1,410.3 billion in fiscal year 2006, slightly lower than the OMB baseline spending level for that year. Compared to the baseline spending level of \$1,335.9 billion for fiscal year 2005, the proposed spending for 2006 is a 5.5-percent increase. Even after the reductions called for in the budget, mandatory spending continues to grow each year, reaching \$1,743.5 billion in fiscal year 2010.

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## Mandatory Spending

(dollars in billions)

	2005	2006	2007	2008	2009	2010	2006-10	2006-15
OMB Baseline	1,335.9	1,415.7	1,485.3	1,558.1	1,644.6	1,751.9	7,855.6	n.a.
Proposed Increases	*	1.8	6.6	8.8	10.6	12.2	40.0	104.4
Proposed Savings (includes Fee Proposals)	0.8	-7.1	-15.7	-15.8	-19.4	-20.6	-78.7	-175.5
Net	0.8	-5.3	-9.1	-7.1	-8.8	-8.4	-38.7	-71.1
President's Budget	1,336.7	1,410.3	1,476.2	1,551.1	1,635.8	1,743.5	7,816.9	n.a.

\* --Less than \$500 million.

Several proposals are repeated from the fiscal year 2005 request. Of those, spending increases include the health tax credits (outlay portion), reauthorization of temporary assistance for needy families [TANF], and merging the Bank Insurance Fund and Savings Association Insurance Fund. Savings and fee increase proposals from last year include Medicaid/State Children's Health Insurance Program [SCHIP] reform, opening of a portion of Arctic National Wildlife Refuge [ANWR] for oil and gas exploration, and extension of spectrum auction authority.

New initiatives in this budget include paying off the Pell grant shortfall, increasing the Pell grant maximum award (combined with student loan reform), reforming the Pension Benefit Guarantee Corporation [PBGC], the continued dumping and subsidy offset act repeal (previously proposed as a discretionary savings item), and several savings initiatives in agriculture programs.

## Spending Increases

The largest increase is for the outlay portion of health tax credits, which consist of a new health insurance tax credit, a credit for employer contributions to employee health savings accounts, and an enhancement of the health coverage tax credit. The outlays associated with these provisions would increase spending by \$99 million for fiscal year 2006, \$24.2 billion for fiscal years 2006-10, and \$69.1 billion for fiscal years 2006-15.

The second largest increase is for Pell Grants. The President's initiative to payoff the Pell grant shortfall provides a one-time increase in mandatory budget authority of \$4.3 billion in fiscal year 2006. The increase in the Pell Grant maximum award would increase spending by \$101 million for fiscal year 2006, \$4.6 billion over 5 years, and \$15.0 billion over 10 years. Increases in borrowing limits and other benefits to students would increase spending by \$221 million for fiscal year 2006, \$3.3 billion over 5 years, and \$7.7 billion over 10 years.

TANF reauthorization would increase spending by \$100 million for fiscal year 2005, \$277 million for 2006, \$1.7 billion for fiscal years 2006-10 and \$3.5 billion for 2006-15. Merging the Bank Insurance Fund and Savings Association Insurance Fund would increase spending by \$1.2 billion over the 5-year period, but the efficiency that would be achieved by the merger would reduce spending after fiscal year 2011, making a total increase for the 10-year period \$1.1 billion, slightly below the 5-year total.

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## Spending Decreases

The proposal with the largest 5-year savings is PBGC reform. This initiative reduces spending by \$2.2 billion for fiscal year 2006, \$15.5 billion for fiscal years 2006-10, and \$26.5 billion for 2006-15. The next largest savings proposal is Medicaid/SCHIP reform. It increases spending by \$225 million in fiscal year 2005, \$1.1 billion for 2006, then decreases spending by \$1.5 billion for fiscal year 2007 and by \$12.3 billion for fiscal years 2008-10. The net saving is \$12.8 billion for the 5-year period and \$44.6 billion for the 10-year period.

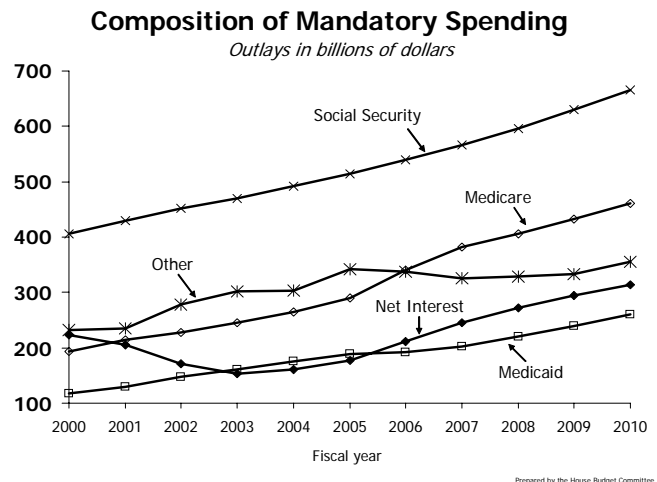
Power Marketing Administrations would be allowed to charge up to market rates. That proposal would achieve savings of \$40 million for fiscal year 2006, \$3.2 billion for fiscal years 2006-10, and \$12.4 billion for 2006-15.

Repeal of the continued dumping and subsidy offset act would save \$1.6 billion for fiscal year 2006, \$6.6 billion for fiscal years 2006-10, and \$11.0 billion for 2006-15. Extension of spectrum auction authority would save \$4.3 billion over the 5-year period, and \$5.1 billion over 10 years.

Although some of the President's proposals in education programs would increase spending, others would reduce it. These include student loan reforms such as increase in lender risk sharing and improvement in program efficiency, recalling Federal Perkins Loan revolving funds, and extending the taxpayer-teacher extension act. Together such proposals lower spending by \$1.5 billion for fiscal year 2006, \$15.1 billion for fiscal years 2006-10, and \$33.3 billion for 2006-15.

The savings initiatives in agriculture programs include a reduction in crop payments by 5 percent, a limit on loan deficiency payments to historical production, tightening of payment limits, and crop insurance coverage changes. Agriculture savings add to \$1.2 billion for fiscal year 2006, \$5.2 billion over 5 years, and \$8.2 billion over 10 years.

User fee proposals, which include services provided by many Federal Government agencies, together would increase receipts by \$809 million for fiscal year 2006, \$6.9 billion for fiscal years 2006-10, and \$14.2 billion for 2006-15.



Overall, the President's budget request in mandatory spending shows a number of small savings across all Federal Government agencies, except defense and homeland security, to slow the growth in spending. As the accompanying chart shows, spending for major entitlements will continue to increase over the next 5 years.

## REVENUE PROPOSALS

The budget proposes a number of tax and trade policy changes that affect revenue (and, to a lesser extent, outlays as well). Taking these policies into account, the administration projects that receipts will increase from \$1.88 trillion (16.3 percent of GDP) in fiscal year 2004 to \$2.82 trillion (17.7 percent of GDP) in fiscal year 2010.

The administration's tax and trade policies would reduce revenue by \$975 million in fiscal year 2006 and by \$109.1 billion over 5 years; refundable tax credits would increase outlays by \$23.3 billion over 5 years. The administration would, however, partially offset these budget effects by enacting a number of revenue-raising provisions that would increase revenue by \$615 million in fiscal year 2006, and by \$2.9 billion over 5 years. The net result from the administration's tax and trade proposals would be a deficit increase of \$344 million in fiscal year 2006 and \$129.5 billion over 5 years.

### Receipts Proposals - Summary

(dollars in billions)

	2005	2006	2007	2008	2009	2010	Total 2006-2010
Make permanent 2001, 2003 Tax Relief	0.313	-0.048	-0.363	-9.647	-31.462	-11.901	-53.421
Tax incentives and tax relief	-0.264	1.376	0.023	-4.658	-8.470	-10.435	-22.164
Extend expiring provisions	---	-2.443	-5.057	-6.225	-7.118	-7.878	-28.721
Other	-0.005	0.140	1.377	-0.960	-2.929	-2.396	-4.768
Close loopholes and revenue offsets	0.157	0.615	0.581	0.534	0.568	0.600	2.898
<b>TOTAL RECEIPTS EFFECT</b>	<b>0.201</b>	<b>-0.360</b>	<b>-3.439</b>	<b>-20.956</b>	<b>-49.411</b>	<b>-32.010</b>	<b>-106.176</b>
Total Outlay Effect	---	-0.016	3.607	5.594	6.738	7.380	23.303

Source: Office of Management and Budget

The overall set of revenue proposals can be categorized as follows and summarized in the table above:

- **Making Permanent the 2001 and 2003 Tax Legislation:** The administration has made a priority of permanently extending both the broad tax relief provided in 2001 – and generally scheduled to expire in 2010 – and most of the growth package enacted in 2003 is a top legislative priority. The revenue loss resulting from making these provisions permanent – \$48 million in fiscal year 2006 and \$53.4 billion over 5 years, compared with levels that would result if all the provisions expired as scheduled – is assumed in the budget's baseline.

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- **New Tax Relief Initiatives:** The administration also has proposed new tax initiatives in several general areas, including savings, health care, charitable giving, energy policy, and benefits for families.
  - **Extending Expiring Tax Provisions:** The administration would make permanent or extend temporarily a number of tax provisions that are scheduled to expire during the budget year.
  - **Revenue Offsets:** The administration has included a number of revenue offsets in its budget, intended not only to raise revenue but also to close loopholes, curtail tax avoidance, and improve tax administration.
  - **Trade Policies:** The administration also has an ambitious agenda of expanding American exporters' access to foreign markets. To this end, the administration hopes to conclude during 2005 negotiations on free trade agreements with Bahrain, the Dominican Republic, and Panama. These agreements would have minor revenue consequences.